# EUROPEAN FUNDS ABSORPTION [1]
# - A MACROECONOMIC VISION -

**PhD. Alexandru-Puiu COSTACHE**
Romania Court of Accounts

**Abstract**

Structural and Cohesion Funds (SCF) are financial instruments through which the EU acts to eliminate economic and social disparities between regions, in order to achieve economic and social cohesion.

EU coming funds which are reflected in the balance of payments were analyzed, both in terms of development and structure, highlighting their importance in the development of our country.

**Key words:** current transfers and capital transfers from the EU, direct foreign investments

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EU cohesion policy is supported by two structural instruments: structural funds (European Social Fund-ESF and European Regional Development Fund - ERDF) and Cohesion Fund.

ESF supports investments in human capital development and in human resources training in accordance with the revised European Employment Strategy. In Romania, ESF supports human capital development and labor market competitiveness by ensuring equal opportunities for lifelong learning

1 *This work has received financial support through the "Post-Doctoral Economics Studies: continuous training a program for leading researchers - SPODE" grant agreement no. POSDRU/89/1.5/S /, project financed by The European Social Fund through the Operational Program - Human Resources Development 2007-2013.*

and the development of a modern and flexible labor market that shall lead, by 2015, to the sustainable integration of 900,000 people in the labor market.

European Regional Development Fund supports: investments meant to create jobs (intended primarily for the SME sector), infrastructure (transport, environment, communications, education, health, social, cultural and energy), development of local potential (company support and services, networking, cooperation and experience exchanges) technical assistance.

Cohesion Fund helps Member States with a gross national product (GNP) per capita of less than 90% of the Community average to reduce differences in what regards the economic and social development and to stabilize their economies. It supports actions part of the "Convergence" objective and it is subject to the same rules of programming, management and control as the ESF and ERDF.

During 2007-2013, the Cohesion Fund addresses the following countries: Bulgaria, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta, Poland, Portugal, Czech Republic, Romania, Slovakia, Slovenia and Hungary. Spain is eligible, but only on transient bases as its GNP per capita is below the average of the EU-15 Member States.

**The Cohesion Fund finances actions in the following fields:** Trans-European transport networks, especially EU defined as priority interest projects; Environment, in this context, the Cohesion Fund can intervene also in energy projects or transport, as long as these represent clear advantages for the environment: energy efficiency, using renewable energy sources, rail system development, supporting intermodality, strengthening public transport etc.

Cohesion Fund Financial assistance arrest occurs by the Council decision (qualified majority) when a Member State that has an excessive deficit fails in stopping this situation or its actions prove to be inadequate.

European funds represent new money entering the Romanian economy, their effect on the economic growth is an important one - given the fact that Romania's GDP is about 140 billion euro, the annual absorption of 3-4 billion euro coming from EU funds clearly enhance the economic growth.

Moreover, as Romania contributes annually about 1% of GDP to the EU budget, a low degree of absorption makes us net contributors, as it happened in recent years.

In addition, we must not forget that this money is not borrowed, it-s free, but how its spent is under a very strict EU control. Therefore, their use in other purposes is difficult, and those who break the rules have to return the amounts.

In the financial year 2007-2013, Romania has been allocated 19.2

billion euro from European Union (amount is specified in the National Strategic Reference Framework consisting of seven Operational Programs), consisting of EU structural and cohesion funds . According to EU cohesion policy, these funds are intended to support member countries convergence by increasing competitiveness in terms of employment. Romania is still poor in accessing EU funds.

EU statistics mentioned in the Fiscal Council report, show that Romania has registered an average absorption rate of 17.3% placing itself last after Slovakia and Bulgaria 27.8% 24.0%.

Structural funds absorbtion – comparison between EU member states

| | Total allocations 2007-2013 Bill. Euro | Payments March 2012 Bill. Euro | Absorption Rate | Total allocations / capita Euro | Total payments/ capita Euro |
|---|---|---|---|---|---|
| **Estonia** | 3,4 | 1,6 | 46,8% | 2540 | 1190 |
| **Latvia** | 4,5 | 1,7 | 36,4% | 2032 | 740 |
| **Poland** | 67,2 | 26.4 | 39,0% | 1759 | 690 |
| **Czech Republic** | 26,5 | 7,0 | 26,5% | 2520 | 667 |
| **Bulgaria** | 6,7 | 1,6 | 24,0% | 889 | 209 |
| **Romania** | 19,2 | 3,3 | 17,3% | 897 | 155 |
| **Hungary** | 24,9 | 8,8 | 35,3% | 2496 | 881 |
| **Lithuania** | 6,8 | 3,3 | 48,0% | 2088 | 1002 |
| **Slovenia** | 4,1 | 1,6 | 38,3% | 2000 | 767 |
| **Slovakia** | 11,5 | 3,2 | 27,8% | 2116 | 587 |

Source: the European Commission

The highest average rate of absorption of the above listed countries are found in Lithuania (48.0%) and Estonia (46.8%), but the amounts allocated to these countries are relatively small - 6.8 billion and 3, 4 billion euro. Poland's situation is special as even though the amount allocated to this country is 67.2 billion euro the average rate of absorption has reached 39.0%.

The same stands for the Czech Republic with an allocated sum of 26.5 billion euro and an average absorption rate of 26.5%.

For Hungary the allocated amount is 24.9 billion euro with an average absorption rate of 35.3%.

According to the 2011 annual report of the Fiscal Council, in December 2011, the highest rate of European funds absorption was brought by the operational program for regional development – 24,95% - while the lowest was for the OP Transport - 3.06%

According to statistics of the NBR monetary flows with EU developments is presented below.

In this context we can say that Romania is facing serious challenges and the risk of losing these opportunities posed by the European funds. It is true that many new member states, had an EU funds absorption rate flow quite slow after their accession, which puts Romania on the same trend. However, Romania is already in the sixth year of EU membership, and available funds have a deadline.

According to the NBR statistics monetary flows evolution with the EU is presented below.

**Monetary flows evolution with the EU**

Bill. euro

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Monetary flows Total** | | | | | |
| Revenue | 1610 | 2708 | 2921 | 2273 | 2664 |
| Payments | 1299 | 1303 | 1744 | 1470 | 1517 |
| **Current Transfers** | | | | | |
| Revenue | 932 | 2227 | 2359 | 1998 | 2276 |
| Payments | 1229 | 1302 | 1597 | 1357 | 1371 |
| **Capital Transfers** | | | | | |
| Revenue | 678 | 481 | 562 | 275 | 388 |
| Payments | 70 | 1 | 147 | 113 | 146 |

Source: NBR

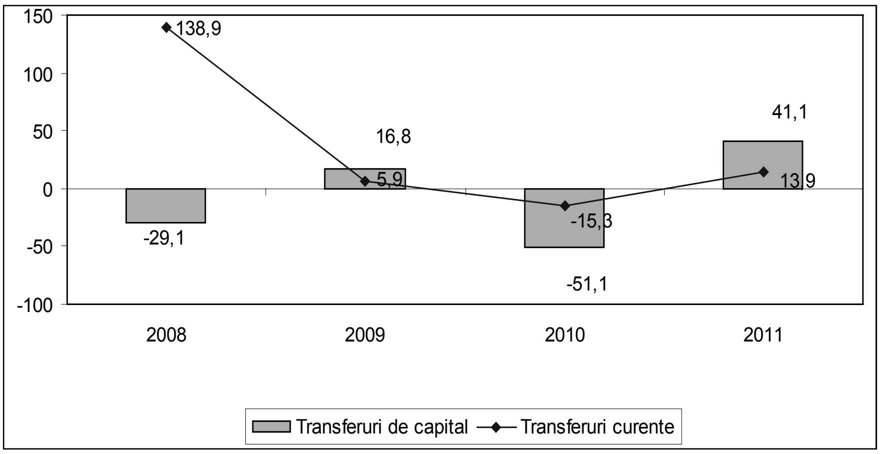
During 2008-2011, inflows (revenues) from the European Union, as current transfers in the balance of current account, experienced the largest increase in 2008 when it increased 2.4 times compared with those recorded in the previous year and the greatest reduction in 2010 of 15.3%.

European inflows of capital as transfer capital from the capital and financial account, for equipment, were represented by low values from 678 bill. euro in 2007 to 388 bill. euro in 2011. Their highest diminish was recorded in 2008 - 29.1%.

In 2011 the inflows of current transfers as well as those of capital have increased compared to previous year by 13.9% and by 41.1%.

**EU inflows evolution**

– % alterations




Source: Calculations based on BNR data

If the early days of the period had a more balanced structure, meaning that the current transfers represented 57.9% and the capital transfers - 42.1% of the inflows from the European Union, during the period a gap appeared between the two components.

**EU inflows Structure**

- % -

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Total** | **100,0** | **100,0** | **100,0** | **100,0** | **100,0** |
| Current Transfers | 57,9 | 82,2 | 80,8 | 87,9 | 85,4 |
| Capital Transfers | 42,1 | 17,8 | 19,2 | 12,1 | 14,6 |

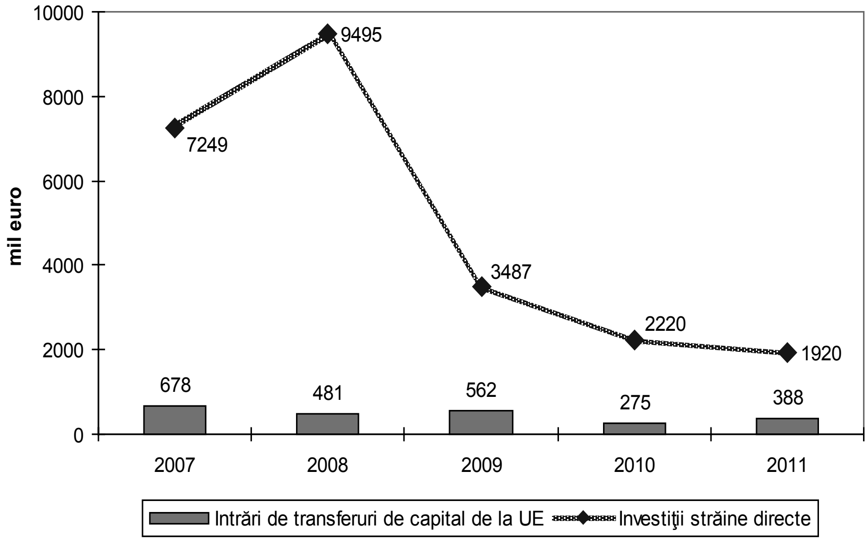
Source: Calculations of the National Forecast Company based on the NBR data

From the structural analysis of the EU inputs, since 2008, it is proven that inflows of current transfers nature held the largest share in total.

Therefore the share of current transfer nature inflows peaked at 87.9% in 2010 and it reached a minimum of 57.9% in 2007. At the end of 2011 the current transfers represented 85.4% of total inflows from the EU.

At the same time the share of capital transfer nature inflows decreased from 42,1% in 2007 to 12.1% in 2010. In 2011 their share in total increased by 2.5 percentage points to 14.6%.

**Capital transfers inflows and direct foreign investments from the EU**




Source: NBR

Capital transfer nature inflows from the EU, foreign direct investments have as main purpose the development and consolidation of a country. It is important to present as well the FDI vital role to the macroeconomic restructuring of hosting-countries.

For FDI 2008 was the year when their value peaked at 9.5 billion euro. Since 2009, with the global economic crisis and the uncertainties arising in the business market worldwide and as well as on national scale in Romania, the foreign direct investment have continuously diminished, reaching a minimum value of 1.9 billion euro in 2011.

The role of foreign direct investment is particularly important at macroeconomic level, because they contribute actively to cover the current account deficit and thus the external balance of payments

## Conclusions

A low rate of absorption of European money as well with diminishing rate in foreign investments can leave the real economy without financial resources.

During 2014-2020, Romania could be one of the main beneficiaries of EU funds, especially for agricultural funds, the European Commission intends to increase substantially for poor regions.

European Commissioner for Agriculture Dacian Ciolos said in a European Commission statement that “... still there will be much to negotiate in the European Parliament and the Council of Ministers but, starting from the budget proposal made by the European Commission, Romania starts as a beneficiary State of significant additional funding if it were to refer only to the common agricultural policy and cohesion policy “.

With the cohesion policy – addressing the areas under the EU average level of prosperity - that will be changed and will focus on the poorest regions - as it is the case for Romania, our country may receive more EU funds in the 2014 to 2020 period.

Thus, although direct payments will remain the key instrument to support farmers income in the period 2014-2020, there will be new grant programs for rural areas, similar to those currently implemented by NRDP.

Until then, there is a lot to negotiate at European level and a lot to do to establish a national framework for implementation. If we were to take after the financial period 2007-2013, probably the first funding programs of the next period will be open in early 2015.

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